



CONGRESSIONAL BUDGET OFFICE PRIVATE-SECTOR MANDATES STATEMENT

October 20, 2004

H.R. 5011 **Military Personnel Financial Services Protection Act**

*As passed by the House of Representatives
on October 5, 2004*

SUMMARY

H.R. 5011 would ban the future sale of periodic payment plans for mutual funds. The bill also would require insurance companies and agents to make certain disclosures about insurance policies offered by the U.S. government when selling or marketing an insurance policy to servicemembers on military installations. The bill would require the Department of Defense to maintain a list of agents and advisors barred from doing business on military installations. Finally, the bill would amend securities law to require a registered securities association to provide an electronic process to receive and respond to inquiries about registration information and disciplinary actions taken regarding brokers and dealers.

H.R. 5011 contains private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), related to the sales of mutual fund and life insurance products. Based on information provided by industry and government sources, CBO expects that the aggregate direct costs of complying with those mandates would fall below the annual threshold established by UMRA for private-sector mandates (\$120 million in 2004, adjusted annually for inflation).

PRIVATE-SECTOR MANDATES CONTAINED IN THE BILL

H.R. 5011 would impose private-sector mandates on registered investment companies, registered securities associations, and those selling life insurance products to members of the Armed Forces on military installations of the United States. Specifically, the bill would impose mandates by:

- Prohibiting the sales of periodic payment plan certificates;
- Requiring a registered securities association to provide an electronic or other process to receive and respond to inquiries about disciplinary actions taken against brokers and dealers; and
- Requiring insurers and producers of life insurance products to make certain disclosures when selling or soliciting life insurance products on military installations.

ESTIMATED DIRECT COST TO THE PRIVATE SECTOR

CBO estimates the aggregate direct costs of the private-sector mandates in the bill would fall below the annual threshold established by UMRA (\$120 million in 2004, adjusted annually for inflation).

Prohibition on the Sales of Periodic Plan Certificates

Purchasers of periodic payment plan certificates make monthly investment payments into mutual funds, typically for a period of 15 years or more. Under current law, the Investment Company Act limits the sales load on such certificates to 9 percent of the total payments to be made during the life of the plan, but allows that sales load to be significantly front-loaded. Specifically, up to half of the monthly investment payments made in the first year may be deducted for sales load. According to industry sources, current practice is to charge a sales load that amounts to 3.3 percent of the total payments expected to be made over the life of the plan, and to collect that sales charge for the entire plan period by deducting half of the first twelve investment payments.

H.R. 5011 would impose a mandate on registered investment companies by prohibiting them from selling any more periodic payment plan certificates. The cost of complying with the mandate would be the income (sales load) forgone net of any operating expenses to generate that income. Based on information from industry sources on sales in 2003, CBO estimates that the annual sales load that would be forgone by the prohibition of new sales of periodic payment plan certificates would be about \$30 million.

Disclosure and Inquiry Response Requirements

The bill also would impose private-sector mandates regarding additional disclosures by those selling life insurance on military bases, and responses to inquiries about broker or dealer registration information. Based on information from industry and government sources, CBO estimates that the direct cost to comply with those mandates would be small. Those mandates would:

- Require insurers and producers of life insurance products selling or soliciting those products on military installations to provide a written disclosure to the consumer that subsidized life insurance may be available from the federal government, and that the U.S. government has in no way sanctioned, recommended, or encouraged the product being offered; and
- Require a registered securities association to establish and maintain a readily accessible electronic or other process to respond to inquiries regarding registration information about brokers and dealers and their associated persons as defined in the Securities Exchange Act, including disciplinary actions taken against them.

PREVIOUS CBO ESTIMATES

CBO's analysis of the federal costs and intergovernmental impact of H.R. 5011 was transmitted on October 4, 2004.

On April 23, 2004, CBO transmitted a cost estimate for H.R. 2179, the Securities Fraud and Deterrence and Investor Restitution Act, as ordered reported by the House Committee on Financial Services on February 25, 2004. Among the private-sector mandates included in that legislation was a mandate on a registered securities association to establish and maintain an electronic process to respond to inquiries about brokers and dealers and their associated persons. CBO determined that the costs to comply with the private-sector mandates in H.R. 2179 were small, and would fall below UMRA's annual threshold for private-sector mandates.

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